The Future Global Reserve System
AN ASIAN PERSPECTIVE

Edited by Jeffrey D. Sachs, Masahiro Kawai, Jong-Wha Lee, and Wing Thye Woo

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Today we are seeing economic recovery gain traction in some parts of the world—notably developing Asia. But recovery has been mixed in the more developed economies like the United States. And it is still uncertain in some of the fiscally stressed European Union states.

It is certainly welcome that a dynamic Asia is leading the world back to robust growth. However, that may well spur a resurgence of capital inflows, causing exchange rate instability and exacerbate previous trade and other imbalances. All that will add further pressure on a global reserve system already scored with fault lines.

That means, more than ever, we need to work together both globally and regionally to find solutions—however gradually implemented—that will bring about a workable reform of the global reserve system.

A well-functioning global reserve system ensures a commonly accepted source of liquidity that the world economy needs in order to flourish. It facilitates balance of payments adjustments and provides an international framework for constructing sound national economic policies. Its key elements include exchange rate determination, payments, adjustment required, and management of international liquidity requirements.

Our current global reserve system, unfortunately, is not functioning too well. Exchange rate systems, to cite one example, vary widely in flexibility. The use of the US dollar as an international reserve currency only heightens the problem of simultaneously using a currency as a domestic and as an international currency. It creates tension between national and global monetary policy making.

Going forward, the critical issue is simple to ask but difficult to answer: what are the alternatives, and who would want to take on that responsibility?

Many believe the euro is a serious rival to the US dollar as a reserve currency. However, the Greek debt crisis has made it clear that the euro is not yet a currency with a solid sovereign backbone. Given Asia’s large and growing weight in the world economy, there is growing opinion that the region should have its own reserve currency.

The yen is the Asian currency most used internationally, but its reserve currency status has weakened in the last 20 years. The renminbi is a possible candidate—but a long-term candidate, given the People’s Republic of China’s relatively underdeveloped financial markets. There are also some proposals for a system based on special drawing rights or a regional currency basket. The key challenge here would be how to make this super-sovereign currency commercially viable.

In sum, the consensus seems to be that the US dollar will likely remain dominant for the foreseeable future. But it will be increasingly challenged.

Policy coordination, both at the global and regional levels, is the key to reforming the global financial architecture. Asia is no longer a minor player. It must take a more active global role. At the same time, Asian countries must continue to strengthen policy cooperation. Greater exchange rate cooperation will promote both intraregional exchange rate stability and extraregional exchange rate flexibility.

In conclusion, a reconsideration of the global reserve system is in everyone’s interest. The ongoing debate on the issue is both healthy and necessary. Asia has led the world out of recession. We did not go overboard financially—we learned our lessons from 1997/98 well. But now, we must also accept our responsibilities as active members of a global economic community that is now different from just a decade ago.

I sincerely hope that this report will stimulate constructive debate—both within and beyond Asia—on how we can move to a more stable, efficient, and equitable global reserve system that will better facilitate global trade and capital flows.

Haruhiko Kuroda
President
Asian Development Bank
Contributors

International Monetary Advisory Group

**Nirupam Bajpai** is a Senior Development Advisor at the Earth Institute at Columbia University in New York and Director of the South Asian Program. He is also a member of the United Nations Millennium Project on the Millennium Development Goals. Dr. Bajpai’s research interests include the links of health and development, economic geography, globalization, emerging markets, economic development and growth, global competitiveness, and macroeconomic policies in developing and developed countries.

**Maria Socorro Gochoco-Bautista** is currently a Senior Economic Advisor at the Economics and Research Department, ADB. She is the Bangko Sentral ng Pilipinas Sterling Chair in Monetary Economics at the School of Economics, University of the Philippines, and was an Assistant Professor of Economics at the University of Hawaii.

**Willem Buiter** is currently Chief Economist of Citigroup. Previously, he was professor of European Political Economy at the European Institute of the London School of Economics and Political Science. He was a member of the Monetary Policy Committee of the Bank of England (1997–2000) and Chief Economist and Special Adviser to the President at the European Bank for Reconstruction and Development (EBRD) (2000–2005). He has held academic appointments at Princeton University, University of Bristol, Yale University, and University of Cambridge and has been a consultant to the International Monetary Fund, the World Bank, and several national governments and government agencies.

**Barry Eichengreen** is the George C. Pardee and Helen N. Pardee Professor of Economics and Professor of Political Science at the University of California, Berkeley, where he has taught since 1987. He is a Research Associate of the National Bureau of Economic Research and Research Fellow of the Centre for Economic Policy Research. He was also a Senior Policy Advisor at the International Monetary Fund. A monthly columnist for Project Syndicate, he is also the convener of the Bellagio Group of academics and economic officials and chair of the Academic Advisory Committee of the Peterson Institute of International Economics.

**Masahiro Kawai** is currently Dean and Chief Executive Officer of the Asian Development Bank Institute (ADBI). He joined ADBI in 2007 after serving as Head of ADB’s Office of Regional Economic Integration and Special Advisor to the ADB President in charge of regional economic cooperation and integration. He taught at The Johns Hopkins University and Tokyo University. He also worked as Chief Economist for the World Bank’s East Asia and the Pacific Region from 1998 to 2001, and as Deputy Vice Minister of Finance for International Affairs of Japan’s Ministry of Finance from 2001 to 2003. He has been a consultant to the Board of Governors of the Federal Reserve System and International Monetary Fund.

**Felipe Larraín** is currently Minister of Finance, Republic of Chile, and Professor of Economics (on leave) at Pontificia Universidad Católica de Chile. He is former Director of the Central America Project at the Harvard Institute for International Development, Harvard University.

**Jeffrey D. Sachs** is the Director of The Earth Institute at Columbia University, where he is also Quetelet Professor of Sustainable Development, and Professor of Health Policy and Management. He is also Special Advisor to United Nations Secretary-General Ban Ki-moon. From 2002–2006, he was Director of the United Nations Millennium Project and Special Advisor to United Nations Secretary-General Kofi Annan on the Millennium Development Goals—the internationally agreed goals to reduce extreme poverty, disease, and hunger by the year 2015. He was named as one of the 100 most influential people in the world by *Time Magazine* in 2004 and 2005.
**Joseph E. Stiglitz** is currently University Professor at Columbia University in New York and Chair of Columbia University's Committee on Global Thought. He is also the co-founder and Executive Director of the Initiative for Policy Dialogue at Columbia. In 2001, he was awarded the Nobel Prize in economics for his analyses of markets with asymmetric information, and he was a lead author of the 1995 Report of the Intergovernmental Panel on Climate Change, which shared the 2007 Nobel Peace Prize. He has taught at Princeton, Stanford, Massachusetts Institute of Technology, and was the Drummond Professor and fellow of All Souls College, Oxford.

**Wing Thye Woo** is Professor at University of California, Davis, Yangtze River Scholar at the Central University of Finance and Economics in Beijing, Director of the East Asia Program within The Earth Institute at Columbia University, and Non-resident Senior Fellow at the Brookings Institution. His current research focuses on the economic issues of East Asia (particularly the People’s Republic of China, Indonesia, and Malaysia), international financial architecture, comparative economic growth, state enterprise restructuring, fiscal management, and exchange rate economics.

**Charles Wyplosz** is Professor of International Economics at the Graduate Institute in Geneva, where he is Director of the International Centre for Money and Banking Studies. Previously, he has served as Associate Dean for Research and Development at INSEAD and Director of the PhD program in Economics at the *Ecole des Hautes Etudes en Science Sociales* in Paris. He also has been Director of the International Macroeconomics Program of the Centre for Economic Policy Research, the leading European network of economists. His main research areas include financial crises, European monetary integration, fiscal policy, economic transition, and current regional integration in various parts of the world.

**Yongding Yu** is an Academician with the Chinese Academy of Social Sciences. He was formerly the academic member of the Monetary Policy Committee of the People’s Bank of China and member of National Advisory Committee of the 11th Five Years Plan of National Reform and Development Commission. He authored, co-authored and edited several books, and published numerous papers and articles on macroeconomics, international finance, and other subjects in various academic journals and mediums. His main research interests are macroeconomics and world economics.

**International Monetary Working Group**

**Joshua Aizenman** is Professor of Economics at the University of California at Santa Cruz (UCSC) and a Research Associate of the National Bureau of Economic Research. Prior to joining the UCSC faculty in 2001, he served as the Champion Professor of International Economics in Dartmouth College. His research covers a range of issues in open economy including commercial and financial policies, crises in emerging markets, foreign direct investment, capital controls, and exchange rate regimes. He has been a consultant to the International Monetary Fund, World Bank, the Inter-American Development Bank, and the Federal Reserve Bank of San Francisco.

**Daniel Gros** is currently the Director of the Centre for European Policy Studies based in Brussels, Belgium. His expertise covers monetary and macroeconomic policy, financial market stability, transition to market economies, the enlargement of the European Union, political economy of the Wider Europe, as well as European Union/United States relations. He previously worked at the International Monetary Fund—in the European and Research Departments—and also as an Economic Advisor to the Directorate General II of the European Commission.

**Yiping Huang** is Professor of Economics at the National School of Development/China Center for Economic Research, Peking University. From 2000 to early 2009, he was Managing Director and Head of Asia Pacific Economic and Market Analysis of Citigroup, based in Hong Kong, China. Prior to joining Citigroup, he served as policy analyst with the Research Center for Rural Development of the State Council in Beijing; General Mills International Professor at Columbia Business School, New York; and Director of the China Economy Program at the Australian National University.

**Jong-Wha Lee** is Chief Economist of the Asian Development Bank (ADB). He worked as Economist at the International Monetary Fund and taught at Harvard University as Visiting Professor. He was Head of ADB’s Office of Regional Economic Integration from 2007 to 2009. He is also Professor at the Economics Department of Korea University (on leave). He has

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1. Joshua Aizenman and Donghyun Park co-authored their paper with Yothin Jinjarak.
2. Daniel Gros co-authored his paper with Cinzia Alcidi, Anton Brender, and Florence Pisani.
published numerous books and reviewed journal articles in English and Korean, especially on topics relating to human capital, growth, financial crisis, and economic integration. Mr. Lee, a national of the Republic of Korea, obtained his Ph.D. and Master’s degree in Economics from Harvard University, and his Master’s and Bachelor degrees in Economics from Korea University in Seoul.

Donghyun Park is Principal Economist at the Economics and Research Department of the Asian Development Bank (ADB). Prior to joining ADB, he was a tenured associate professor of economics at the Nanyang Technological University in Singapore. His research focuses on policy-oriented topics relevant for Asia’s long-term development, including rebalancing Asia, Asian sovereign wealth funds, and Asian pension reform. Dr. Park has published extensively in academic journals, and he currently plays a major role in the production of the Asian Development Outlook, ADB’s flagship annual publication.

Andrew Rozanov is currently Managing Director, Head of Sovereign Advisory (London) of State Street Corporation. In the past, he worked as Director of the Equity Capital Markets Group at UBS Investment Bank. He is a Chartered Financial Analyst Charterholder, and also holds designations of Financial Risk Manager from the Global Association of Risk Professionals and Chartered Alternative Investment Analyst (CAIA) from the CAIA Association.

Kanhaiya Singh is a Senior Fellow at the National Council of Applied Economic Research based in New Delhi, India. Dr. Singh’s areas of interest include macroeconomic modeling and analysis, money and finance, applied econometrics, input-output analysis, agriculture trade & food security, growth and development economics, among many others. He has been a consultant with various organizations including the International Monetary Fund and Asian Development Bank.

Lei Lei Song is Senior Economist at the Office of Regional Economic Integration at the Asian Development Bank (ADB). He works in the area of regional economic and financial monitoring, and specializes in applied macroeconomics including macroeconomic modeling, unemployment and inflation, and international economics. He joined ADB from the Melbourne Institute of Applied Economic and Social Research where he was Research Fellow. He was also Visiting Academic at the Australian Treasury and Research Fellow at the China Development Institute in Shenzhen in the Republic of China.

Shinji Takagi is full-time Professor of Economics in the Graduate School of Economics, Osaka University, Japan. He earlier served as Advisor, Independent Evaluation Office of the International Monetary Fund, where he also worked as an economist. In addition, he was Senior Economist of the Institute of Fiscal and Monetary Policy under the Japanese Ministry of Finance.
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An inception workshop was conducted at Columbia University, New York, in September 2009, followed by another conference in Tokyo in March 2010 that was jointly organized with the Asian Development Bank Institute (ADBI). Josephine Duque-Comia, Ruby Grace Santiago, and the staff at the Earth Institute at Columbia University provided administrative and technical support in organizing the inception workshop. Doo Yong Yang, Yuzuru Nagai, and ADBI staff organized the Tokyo conference, with technical support from the videoconference team of ADB. Erickson Mercado provided the creative designs. The following experts provided valuable comments during the workshops: Charles Adams (National University of Singapore), Takatoshi Ito (University of Tokyo), and Wang Xianlei (China Center for International Economic Exchanges).
Executive Summary

The financial crash of 2008 and subsequent global economic downturn has led to a major reassessment of the global monetary and financial system. When the crisis broke, both advanced and emerging economies resorted to frenetic macroeconomic measures to avert financial catastrophe and assure global confidence in the international financial system could return. These globally coordinated policies may have contributed to the ensuing worldwide recovery. But what is needed now is a better regulatory environment that reduces the probability it could happen again.

The crisis was rooted in lax monetary policies and inadequate financial oversight. This was most prominent in the United States (US) and led to serious financial excess. It helped create an overabundance of global liquidity, partly an offshoot of widening global imbalances. These originated from both excessive consumption in the US and an unprecedented accumulation of foreign reserves by emerging economies, especially in Asia. Partly a response to the 1997/98 Asian financial crisis, foreign reserve accumulation was “insurance” against another crisis—when borrowing costs skyrocket just when emergency financing is needed the most. Yet, hoarding international reserves can be extremely costly and inefficient when effective external debt management is lacking.

Thus, the global crisis ignited a well-timed debate among academics and policy makers about the current global reserve system.

Is the current system unstable and inefficient? Did the US dollar–dominated regime contribute to the global crisis? And how should the evolution of the current reserve system be managed? An effective global reserve system supplies the international liquidity needed by a growing global economy, facilitates balance-of-payments adjustments, and provides an international framework for sound national economic policies. Unfortunately, the current system has fallen short of fulfilling its promise.

Reforming the global reserve system has huge implications for developing Asia. The region holds close to half of the world’s total foreign exchange reserves and is highly dependent on international trade and capital flows for its growing prosperity.

The Asian Development Bank (ADB), in partnership with the Earth Institute at Columbia University, initiated a joint research project on “The Future Global Reserve System—An Asian Perspective.” The project aims to enrich the current debate by examining the issue from an Asian perspective, empowering Asia’s policy makers to better deal with the issue and participate in the global dialogue, while informing the public on its importance.

The study was led by the International Monetary Advisory Group (IMAG), assisted by a Technical Working Group. Eleven internationally renowned monetary experts are members of the advisory group, chaired by Earth Institute Director Jeffrey Sachs. Each member contributed a paper on the future of the international monetary system and worked on finalizing a set of recommendations. The technical working group included three ADB staff and six technical experts from academia and the private sector, chaired by ADB Chief Economist Jong-Wha Lee. They prepared seven technical background papers on research topics identified by the advisory group. These reports and essays were the substance of two international workshops—in New York City in September 2009 and in Tokyo in March 2010.

The 11 IMAG papers discuss the future of the global reserve system, the optimal path for recovery following the global financial crisis, ways to rebalance the world economy; the need to create medium-term macroeconomic frameworks nationally and regionally; how to better manage global capital flows; and the future of Asian integration given the rapid growth of the region’s two economic powerhouses—the People’s Republic of China and India.

Nirupam Bajpai discusses India’s response to the global crisis. He argues that the process of fiscal consolidation needs to be accelerated more through qualitative adjustments to reduce government dis-savings and ameliorate price pressures. Maria Socorro...
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An Asian Perspective

Gochoco-Bautista points out that capital flows need to be regulated because unfettered trade in financial assets in the presence of distortions does not improve social welfare. Willem Buiter considers what needs to be done to better coordinate fiscal stimulus globally, and argues the case for future fiscal tightening. Barry Eichengreen argues that the world is headed to a multiple reserve currency system and calls for sound and stable policies on the part of the reserve-issuing countries to ensure a stable system.

Masahiro Kawai suggests that given the difficulty of a global agreement, deepening regional reserve pooling, strengthening formal institutions, and creating a regional currency basket—or an Asian currency unit—is a practical alternative for Asia. Felipe Larraín argues that the US dollar will remain the main reserve currency but will face competition from other major currencies, including the euro; Brazil, the Russian Federation, India, and the People’s Republic of China (BRIC) currencies; and a supranational currency such as International Monetary Fund (IMF) special drawing rights (SDR). Joseph Stiglitz argues for a wider use of a supranational currency such as the SDR as a reserve currency. And Wing Thye Woo argues that a feasible architecture for an Asian Economic Union would be a free trade and open investment zone with a regional financial facility and its own surveillance mechanism.

Charles Wyplosz suggests that if exchange rate cooperation and limited intraregional fluctuations are desirable, pegging a currency to external currencies is more coherent than limiting deviations from an Asian monetary unit based on a regional currency basket. Yongding Yu indicates that US budget deficits would undermine the dollar’s role as global reserve currency, and argues that the US government will likely be unwilling to sacrifice domestic objectives to preserve the global sanctity of the dollar.

The Technical Working Group produced seven papers. Joshua Aizenman and his co-authors suggest that Asia may benefit by deepening international reserve pooling and advancing regional swap arrangements. Daniel Gros and his co-authors argue that reform of the current de facto reserve system should aim to better make use of savings accumulated in emerging market economies.

Yiping Huang suggests that the People’s Republic of China (PRC) can facilitate a smooth and orderly adjustment of the global currency system by gradually increasing its exchange rate flexibility and diversifying foreign reserve investments. Jong-Wha Lee argues that an eventual move to a multicurrency system is desirable and that the PRC renminbi would gradually emerge as an alternative international reserve currency.

Donghyun Park and Andrew Rozanov argue that sovereign wealth funds could play a crucial role in reforming the global reserve system. Kanhaiya Singh argues that the international monetary system has undergone substantial change and a fresh approach is needed—one more neutral and encompassing. And Shinji Takagi analyzes the IMF’s surveillance mechanism and emphasizes the importance of effective regional surveillance in the Chiang Mai Initiative Multilateralization.

Recommendations

A DB and the Earth Institute at Columbia University jointly convened the IMAG to create a comprehensive reform agenda for the global reserve system. The IMAG reform agenda is pragmatic, bolstered by concrete proposals on how to best implement policy.

1. Regional-level recommendations

With the quick rise of new, rapidly growing, economic powers, the Advisory Group sees the global reserve system evolving into a multicurrency reserve system. Regional initiatives that increase economic integration and policy coordination will help facilitate this process. Given Asia’s growing economic clout, it is therefore natural to strengthen efforts to establish a coordinating mechanism—at an existing or new regional institution—to help the region’s leaders better understand the complexities of this challenge, and identify new mechanisms to enhance policy cooperation.

1.1. Ensuring global liquidity. The last 2 decades have shown clearly the severity of economic damage when liquidity abruptly freezes. New arrangements must be made to enable the region’s reserves to play a more central role in stabilizing the global financial system. This includes allowing greater access to swap lines, SDRs, or other types of borrowing. It includes reform of the IMF and increased cooperation among the regional monetary funds.

1.2. Exchange rate coordination and cooperation. Asia is home to a plethora of exchange rate regimes. And the complicated dynamics of cross-rates has likely reduced the benefits of
the production chains that have been the backbone of integrating Asia. Most statistical analyses show that currency basket pegs by Asian currencies can increase stability in intraregional cross-rates than pegs to the US dollar. In practice, country-specific currency baskets appear to provide as much bilateral stability as a common pan-Asian basket.

1.3. **The use of monetary policy and the extent of monetary cooperation.** Regions, especially East Asia, should embrace regional monetary coordination more seriously. However, due to great differences in economic size and structure, the wide diversity in stages of economic development, and the general reluctance to permit free movement of labor within Asia, a common Asian currency is currently not a realistic target. Moreover, regional monetary coordination in general should stop short of efforts to peg currencies within the region—Europe’s crisis in 1992 and the 1997/98 Asian financial crisis are reminders that weak pegs are a recipe for disaster.

1.4. **Unilateral and multilateral capital controls—their use and effectiveness.** Short-term, volatile capital movements can clearly destabilize the global economy. Well-designed temporary capital controls—as opposed to permanent capital controls—are tools that can strengthen growth-oriented macroeconomic management. These controls on the flow of capital tend to be more effective when done on a coordinated basis across countries that are targets of rapid capital movements, rather than individual countries reacting unilaterally.

1.5. **Internationalisation of the renminbi and the PRC economy.** One of the biggest changes in the world economy has been the rise of the PRC economy, now a dominant economic and political power in East Asia. However, the renminbi has yet to become an international currency. It could become one much more quickly than many anticipate. The internationalization of the renminbi has the potential to become an alternative to the US dollar—as did the euro—and help nudge the global reserve system toward a multicurrency reserve structure. Asian countries may also consider developing a basket of Asian currencies as the region’s anchor currency.

1.6. **Surveillance and conditionality.** In a multipolar world with strong and effective regional economic institutions, country-specific economic surveillance and adjustment conditionality must inevitably evolve. Formal mechanisms for consultation between regional and global institutions will be needed to define the menu of policy choices—to prevent a race-to-the-bottom in conditionality-based lending.

1.7. **Sharing seignorage.** Given the failure of the international community to develop globally binding agreements on climate change, the Group feels that, potentially, a portion of the revenue a country receives through seignorage could be shared regionally to tackle climate change as a regional public good. As this is an ethically contentious issue as well as a technically complicated one, international working groups should be convened by the G20 and the United Nations to draw up policy options.

2. **International-level Recommendations**

2.1. **Strengthening prudential capital market regulations.** Given the obvious failure of the financial system to effectively police itself (the slew of financial derivatives as an example)—and the gross inadequacies of current regulatory standards—the IMF, Bank for International Settlements (BIS), and new regional economic institutions can play an important role in helping standardize regulatory frameworks across regions and countries.

2.2. **Convening a brain trust of independent international monetary experts.** Chronic current account imbalances and varying exchange rate regimes, for example, can cause unnecessary friction between and across countries. Independent, expert analysis could provide a useful tool in ameliorating any disputes over alleged exchange rate manipulation.
Summaries of papers

International Monetary Advisory Group
India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of subprime mortgages, whose failure had set off the chain of events culminating in a global crisis. Economic growth decelerated in 2008/09 to 6.7%. This represented a decline of 2.1 percentage points from the average growth rate of 8.8% over the previous 5 years.

To counter the negative fallout of the global slowdown on the Indian economy, the federal government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. India’s central bank—the Reserve Bank of India—took a number of monetary easing and liquidity enhancing measures to facilitate the flow of funds from the financial system to meet the needs of productive sectors. This fiscal accommodation led to an increase in fiscal deficit from 2.7% in 2007/08 to 6.2% of gross domestic product (GDP) in 2008/09. The difference between the actual figures of 2007/08 and 2008/09 constituted the total fiscal stimulus. This stimulus at current market prices amounted to 3.5% of GDP for 2008/09. These measures were effective in arresting the fall in the growth rate of GDP in 2008/09 and India achieved a growth rate of 6.7%.

From all accounts, except for the agriculture sector as noted above, economic recovery seems to be well underway. Economic growth stood at 7% during the first half of the current fiscal year and advance estimates for GDP growth for 2009/10 is 7.2%. The recovery in GDP growth for 2009/10, as indicated in the advance estimates, is broad based. Seven out of eight sectors/subsectors show a growth rate of 6.5% or higher. The exception, as anticipated, is agriculture and allied sectors where the growth rate is estimated to be minus 0.2% over 2008/09. Sectors including mining and quarrying; manufacturing; and electricity, gas, and water have significantly improved their growth rates at over 8% in comparison with 2008/09. When compared with countries across the world, India stands out as one of the best performing economies. Although there is a clear moderation in growth from 9% to between 7% and 8%, the pace still makes India the fastest-growing major economy after the People’s Republic of China.

Considering current inflationary strains, the as yet excessive preemption of the community’s savings by the government, the potential for crowding out requirements of the enterprise sector, and rising interest payments on government debt, it is crucial to reduce the fiscal deficit, and more aggressively—mainly by lowering the revenue deficit. Correction of these deficits would, inter alia, require considerable refocusing and reduction of large hidden subsidies associated with underpricing in crucial areas, such as in power, irrigation, and urban transport. Food and fertilizer subsidies are other major areas of expenditure control. Be that as it may, the process of fiscal consolidation needs to be accelerated through more qualitative adjustments to reduce government dis-savings and ameliorate price pressures.

The step-up in India’s growth rate over much of the last 2 decades was primarily due to the structural changes in industry, trade, and finance, among others. Reforms in the 1990s in these sectors were wide and deep and hence contributed significantly to higher productivity of the economy. Indeed, there is potential for still-higher growth on a sustained basis of over 9% in the years ahead, but among other things, this would require the following: (i) a revival and vigorous pursuit of economic reforms at the center and in the states; (ii) a major effort at raising the rate of domestic savings, especially by reducing government

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dis-savings at the central and state levels through cuts in, and refocusing of, explicit and implicit subsidies, stricter control over non-developmental expenditures, improvements in the tax ratio through stronger tax enforcement, and strengthening incentives for savings; (iii) larger investments in, and better performance of, infrastructure, both public and private; and (iv) greater attention to, and larger resources for, agriculture, social sectors, and rural development programs to increase employment, reduce poverty, and for creating a mass base in support of economic reforms.

If India does attain and sustain growth rates of over 9%—the rate achieved prior to the crisis—this itself is likely to push up domestic savings over the next few years. Besides, stronger growth should attract more foreign savings, especially foreign direct investment, and thus raise the investment rate.
stylized facts regarding capital flows over the past 2 decades show that the potential for crisis is great, given pro-cyclical capital flows. The global crisis and the resulting recession and low interest rates in advanced economies will increase the potential for more pro-cyclical carry trade flows to emerging market economies. Both the volume and volatility of capital flows have increased, with “sudden starts” of capital outflows becoming more prominent recently, in contrast with “sudden stops” of capital inflows which characterized crises in the past. Emerging market economies have become important players in international banking and capital markets as financial globalization proceeds. But they have become more vulnerable to changes in investor appetite and portfolio changes from mature economies as equity flows and short-term flows become more important than banking flows as was the case in the past.

Capital flows need to be regulated because unfettered trade in financial assets in the presence of distortions is not necessarily welfare-improving. To what extent they need to be regulated depends on the degree of distortion present in an economy and whether it is easier to remove these distortions and allow capital flows versus the difficulty of dealing with the distortions which makes such regulation necessary. It also depends on complementary policies that can be adopted to make capital more productive in an economy to increase welfare obtainable from capital flows. The fact is that many emerging market economies today are running current account surpluses—rather than the deficits of the past—which means there is less of a need for external finance. There remains the problem of recycling such surpluses to advanced economies such as the United States (US) that need them, which then return to emerging market economies in search of higher returns.

Having embraced economic liberalization, however, should not preclude efforts to find ways to reduce the potential damage from pro-cyclical capital flows through their regulation. Unfortunately, while capital regulation has worked in some cases, for example, to lengthen the maturity of flows, there is little evidence that such regulation neither alters the composition of flows nor work over extended periods of time. There is also little evidence that emerging market economies can be spared the effects of a large externally initiated financial crisis no matter what they do. The lack of success in regulating capital flows by individual countries underscores the need for international cooperation in the design and implementation of such regulation of capital flows.

Under the current predominantly US dollar standard, there is a huge incremental demand for “safe” dollar assets that are reflected in perverse flows from the emerging market economies to the US and other advanced economies. There is also little incentive for the US to weaken the dollar to correct its large deficit. However, as the reserve currency of the world, US authorities need to—and the rest of the world expects them to—maintain dollar strength. The dollar standard also exacerbates pro-cyclical capital flows to emerging market economies such as those under carry trade. The adjustment burden tends to be shifted onto surplus countries to either continue to recycle their surpluses to the US and advanced economies and maintain the status quo, or to take on riskier assets for the global adjustment to occur.

The radical solution to the problems of pro-cyclical capital flows and systemic crises would be to reform the global reserve system through the adoption of a supranational global reserve currency. Without this, regulating capital flows may be regarded as a second-best solution. To be effective, such regulation should try to increase the policy space

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for countercyclical policy and requires international cooperation to raise the chance of success of measures adopted to regulate capital flows. To the extent that reforming the global US dollar–based reserve system could take time, and given continuing financial globalization, regulating capital flows becomes a necessary collective challenge.
The Case for a Further Globally Coordinated Fiscal Stimulus

Willem Buiter

The paper considers the conditions that must be satisfied for another internationally coordinated fiscal stimulus to make sense—and tallies these against the circumstances prevailing in advanced industrial countries during the late 2009–early 2010 period.

First, there must be idle resources—involuntary unemployment of labor and unwanted excess capacity. Output and employment are effectively demand-constrained. These conditions were undoubtedly still satisfied throughout the industrial world.

Second, expanding monetary policy should no longer be effective in stimulating demand. With short-term nominal interest rates at or near the zero lower bound and with quantitative easing, credit easing and enhanced credit support of doubtful effectiveness—except when disorderly financial market conditions prevail—this condition is also satisfied.

Third, expansionary fiscal policy should not drive up interest rates, either by raising the risk-free real interest rate or by raising the sovereign default risk premium, to the extent that fiscal stimulus is emasculated through financial crowding out. This condition is only satisfied for relatively few industrial countries, those with low public debt to gross domestic product (GDP) ratios, low primary (non-interest) deficits as a share of GDP and significant scope for raising future taxes or cutting future public spending. Political economy considerations—such as the degree of polarization of the polity, the effectiveness of key political and economic institutions, and the quality of the incumbent political leadership—are the key drivers here. A few countries have extraordinary buffers that protect them from the normal working of market discipline through the “bond market vigilantes” and similar channels. The most important are the United States (US)—protected for the time being by the global reserve currency status of the US dollar—and Japan, which is protected by its large stock of net private financial assets and the very high degree of passive domestic ownership of public debt.

Fourth, at given interest rates, the expansionary fiscal policy measures are not neutralized by direct crowding out (the displacement of private spending by public spending or of public dis-saving by private saving at given present and future interest rates, prices, and activity levels). Such direct crowding out can occur in the case of tax cuts (strictly speaking, cuts in lump-sum taxes matched by future increases in lump-sum taxes of equal present discounted value) because of Ricardian equivalence/debt neutrality. In economies with very highly indebted households, debt neutrality can occur when taxes on households are cut, because of what the author calls “Minsky equivalence.” Increases in public spending on real goods and services (“exhaustive” public spending) can fail to boost aggregate demand because of a high degree of substitutability (in the utility functions or the production technology) between private consumption and investment on the one hand and public consumption and investment on the other.

There is little, if any, empirical support for Ricardian equivalence. Minsky equivalence is untested but, the author argues, plausible in a world with highly indebted and suddenly highly risk-averse households. If it is present, it would be good news for those countries that have to tighten fiscally to meet the demands of skeptical markets that doubt their fiscal sustainability.

Fifth, there must be cross-border externalities from expansionary fiscal policies that cause decentralized, uncoordinated, national fiscal expansions to be suboptimal. This is bound to be satisfied in a world of imperfectly competitive producers and employers operating under conditions of inadequate effective demand.

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It follows that the conclusions on the scope for further conventional expansionary fiscal policy now is rather discouraging in nations with high and rapidly rising public debt burdens, unless there is scope for political realignments that support coalitions in favor of significant future fiscal tightening through tax increases or public spending cuts. The paper also outlines some unconventional fiscal/financial policies that may be effective in their own right and may help enhance the effectiveness of conventional expansionary fiscal policy. Collectively, they can be characterized as the equitization of debt—household mortgage debt through the issuance of “Islamic mortgages,” bank debt through mandatory conversion of unsecured debt into common equity, and public debt through the issuance of instruments like GDP growth warrants or floating rate debt with “interest rates” indexed to the growth rate of nominal GDP.
It is the thesis of this paper that a multiple reserve currency system is coming. The system for which we need to prepare is one in which the dollar, the euro, and the renminbi will be consequential international and reserve currencies. The international monetary system is growing more multipolar because the world economy is growing more multipolar. After World War II, when the United States (US) accounted for the majority of the industrial production of the non-Soviet world, it made sense that the dollar was the principal unit in which exporters and importers invoiced and settled their trade, in which international loans were extended, and in which central banks held their reserves. But this situation makes less sense today when the US accounts for only some 20% of the combined output of countries engaged in international transactions. Because habits die hard, the dollar continues to play a disproportionately important role. But simply because this is true today does not mean that it will be true tomorrow. Countries that trade with and borrow from the eurozone will increasingly seek to hold euros as reserves. Countries that trade with and borrow from the People’s Republic of China will similarly seek to hold renminbi, if not today then in the not-too-distant future.

Some warn that a multiple-international-currency system would be dangerously unstable. With dollars, euros and (eventually) renminbi all being substitutes for one another, their exchange rates will become dangerously volatile. Substitutability will create the temptation to shift erratically between them. Even a limited loss of confidence in the policies of one of the reserve-currency countries could cause central banks to rush out of its currency, aggravating financial difficulties in the problem country. The consequences for other reserve-issuing countries, which will see their currencies appreciate sharply, will be equally undesirable. A multiple-reserve-currency system, it is argued, would be an engine of instability.

This view is based on a mischaracterization of the behavior of central bank reserve managers. Reserve managers do not seek to maximize the return on their reserve portfolios in the manner of hedge-fund managers. They do not have the high-powered financial incentives of hedge-fund managers—reserve managers are not compensated on a 2+20 scheme. They have less incentive to sell a currency simply because everyone else is selling. They can adopt a longer horizon because, unlike private fund managers, they do not have to satisfy impatient investors. They do not have to exceed their previous high-water mark in order to draw a paycheck.

What can be done, in terms of policy, to stabilize a multiple international currency system? Sound and stable policies on the part of the reserve-issuing countries would be the most important contribution. Chronic budget deficits, lax supervision and regulation of financial markets and institutions, and bubble-denying monetary policies could set the system up for a painful fall. An International Monetary Fund that refuses to pull its punches and exercises firm surveillance of large-country policies would help prevent this.

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From the Chiang Mai Initiative to an Asian Monetary Fund

Masahiro Kawai

Following the 1997/98 Asian financial crisis, ASEAN+3 finance ministers launched several initiatives for regional financial cooperation: (i) the Economic Review and Policy Dialogue (ERPD) to support regional economic surveillance; (ii) the Chiang Mai Initiative (CMI), a regional liquidity support arrangement; and (iii) the Asian Bond Markets Initiative. In this paper the author evaluates the progress of such initiatives—particularly the CMI and the recent launch of its multilateralization (CMIM)—and explore the possible evolution of the CMIM toward a regional monetary fund called the Asian Monetary Fund (AMF).

The paper argues that for an AMF to emerge, ASEAN+3 authorities need to strengthen regional surveillance and upgrade their capacity to formulate credible conditionality in the event of crisis lending so that the CMIM can be delinked from IMF programs. Specifically, the paper offers the following recommendations:

- Clarify rules for activating CMIM lending, including the possibility of providing precautionary (or precrisis) lending and eschewing policy conditionality in the event of externally or herd behavior–driven financial turbulence or crises;
- Establish a joint forum for finance ministers and central bank governors to intensify policy dialogue among them;
- Make the newly established ASEAN+3 Macroeconomic Research Office (AMRO) a strong professional secretariat, with the required analytical expertise and policy experience, to enable it to support regional economic surveillance through the ERPD, activate the CMIM, and formulate conditionality independently of the IMF;
- Enlarge the size of the CMIM facility so that a sufficient amount of liquidity is provided to member countries in need; and
- Move beyond the simple “information sharing” stage to a more rigorous “peer review and peer pressure” stage, and eventually to a “due diligence” stage, to improve the quality of economic surveillance.

The paper also argues that there is a case for more flexible use of the CMIM—for precautionary lending without conditions—if the type of external shock that affected the Republic of Korea in the fall of 2008, following the Lehman collapse, were to hit Asia again in the future.

Finally, the paper emphasizes the need for the CMIM—and a new AMF—to work with the IMF to promote Asian financial stability, but this would require the International Monetary Fund (IMF) to undertake significant operational and governance reforms so that it regains credibility and trust in Asia. On the operational side, the IMF should focus on macro-financial surveillance of large, systemically important economies—like the United States and the European Union—and to hold them to the same standard as smaller economies. On the governance side, the choice of the IMF managing director—who has always been a Western European—should be based on merit and qualifications and not on nationality. Were such fundamental changes undertaken, then the IMF would likely successfully grasp the opportunity to regain the trust of emerging Asian members, provide them with a sense of ownership, and be regarded as their partner for macroeconomic and financial stability in Asia.

In recent years East Asia has seen rapid advances in market-driven economic integration through international trade, investment, and finance. Growing economic integration has strengthened macroeconomic links across East Asia, suggesting that it is increasingly important for the region’s economies to achieve intraregional exchange rate stability. Furthermore, given that East Asia—comprising mainly the ASEAN+3 countries—is expected to become the world’s largest economic bloc by 2020, it is natural to expect this region to eventually have its own globally accepted, international currency.

In reality, however, the region remains characterized by diverse, uncoordinated exchange rate regimes. Japan and the People’s Republic of China (PRC), the two largest economies in East Asia, respectively adopt a pure float and a tightly managed US dollar–based regime. Other economies—except for the small open economies of Hong Kong, China and Brunei Darussalam—adopt intermediate regimes of managed float with the US dollar as the most important anchor currency.

In this paper, the author argues that East Asia needs a framework for exchange rate policy coordination. An obvious regional anchor currency that leads this coordination might be the yen or the renminbi, given the large size and spillover impacts of Japan and the PRC in the region. However, the yen’s power waned in the 1990s and 2000s—due to both Japan’s lost decade following the bursting of asset price bubbles and population aging—though it is fully convertible internationally and still has the potential to play a critical role. With PRC’s strong growth, the renminbi’s international role will inevitably rise over time, but the usefulness of the renminbi will long remain limited for international settlement, clearance, financing, and liquidity holding due to the lack of full convertibility. These two factors suggest a need for introducing a basket of appropriately weighted East Asian currencies—called the Asian Currency Unit (ACU) where the weights of the yen and the renminbi are relatively large—as the region’s common reference. An ACU could facilitate various types of regional exchange rate policy coordination.

An important policy challenge for the region today is to manage large and rapid capital inflows. With the robust economic recovery and the prospect of an imminent tightening of monetary policy, large amounts of capital are already flowing into Asia. To manage even larger capital inflows and maintain macroeconomic and finance sector stability, any economy should allow greater exchange rate flexibility, but without damaging the country’s international price competitiveness. The best policy strategy for the region is to allow collective currency appreciation vis-à-vis the US dollar and the euro, while maintaining relatively stable intraregional rates. Such collective exchange rate appreciation of the East Asian currencies would require a coordinated approach to exchange rate regime choice. Here an ACU index should prove useful, as it measures collective changes of East Asian exchange rates against the US dollar and the euro and allows analysis of the divergence of regional currencies from the ACU.

The immediate step for such coordination would be for the region’s authorities to discuss exchange rate issues as part of enhanced regional economic surveillance and policy dialogue, for which an ACU index will be a useful instrument. The next step would be to promote convergence of exchange rate regimes in East Asia in order to achieve some degree of intraregional rate stability; the most realistic option is for emerging East Asian economies to adopt similar managed floating regimes. This can be done through, for example, the adoption of a common SDR-
plus currency basket regime based on the SDR (which is a basket of the US dollar, euro, pound sterling, and the yen) plus emerging East Asian currencies. Use of the ACU for foreign exchange reserve holding, bond issuance, and bank deposits and loans would further promote the role of the ACU.

More formal mechanisms for intraregional exchange rate stability based on the ACU could be developed in the future by reducing the weights of the US dollar, euro, and pound sterling in the SDR-plus basket. But this step would require substantial convergence across economies in the region in terms of political, economic, institutional, and social conditions. ☺
In the most likely scenario, the US dollar will remain the main reserve currency in the foreseeable future, but will face growing competition over the medium term from other national currencies, such as the euro, the BRIC (Brazil, Russia, India, and the People’s Republic of China) currencies, etc., and a supranational currency such as special drawing rights (SDR). Therefore, the dollar will probably lose weight in time as a share of international reserves. However, this process is likely to be slow and gradual, particularly due to lingering doubts about the future of the euro following fiscal problems in several countries of the eurozone.

The SDR is likely to gradually win greater importance as a reserve currency if it can play a larger role in trade and financial transactions in the global economy, and if it can substantially increase its liquidity and use as an international lender of last resort currency. The increase in 2009 of SDR allocations and the flexible credit line go in that direction.

The economic crisis has resulted in renewed attention to the creation of a new global reserve system. Some of the reasons should be obvious. The US dollar–based reserve system has been fraying for years. At least since the beginning of the decade, the US dollar no longer seemed a good store of value; its value was volatile and seemed to be subject to secular decline. But the crisis further undermined confidence in the US economy and its management.

The choice facing the international community is whether to create, systematically, a new global reserve system, or to “muddle through,” moving from the US dollar–based system to a two- or three-currency reserve system, which could be even more unstable and volatile.

This paper argues that a new global reserve system is absolutely essential, if we are to restore the global economy to sustained prosperity and stability. But achieving this, too, will not be easy. In the interim, the countries of Asia have an opportunity to strengthen existing regional arrangements. Doing so would not only contribute to the strength of the Asian economies but possibly also be a critical building block in the creation of a new global reserve system.

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A Realistic Vision of Asian Economic Integration

Wing Thye Woo

In thinking about Asian economic integration, it is noteworthy that most attempts at regional economic integration have been failures. Beside the European Union (EU), the only other case that has been meaningful enough and durable enough is the North American Free Trade Area (NAFTA). Unlike the EU, NAFTA allows only limited labor mobility across countries, has no plans to coordinate exchange rate policies; and does not envisage an eventual political union.

Our conclusion is that the feasible architecture for an Asian Economic Union would be a free trade and open investment area that has a regional financial facility. For the medium run, an Asian Financial Facility (AFF) would operationally be a large Asian swap facility that has its own surveillance mechanism to prequalify members for emergency loans. The primary mission of an AFF is to reduce the cost of bad luck and not the cost of bad policies. The AFF would evolve according to the progress of reforming the International Monetary Fund (IMF), and to the needs created by an increasingly integrated Asia. Given the large size of East Asian foreign reserves, the AFF should take on the additional task of designing a pooling scheme where part of the East Asian reserves could be safely used to finance sound infrastructure projects in the poorest Asian countries.

It is important that the AFF does not suffer from the institutional inertia that is characteristic of the present global organizations like the Security Council of the United Nations, World Bank, and IMF. The leadership structure of the AFF should be designed to avoid simply locking in the balance of economic power that existed at the time of its founding.

Given the great disparity in the present and future distribution of economic power in East Asia, and the greater restrictions on labor mobility within the (commonly proposed) Asian Economic Union, a NAFTA-type of Asian Economic Union would be preferable to an EU-type of Asian Economic Union. Exchange rate coordination might occur sporadically but it is unlikely to be the norm in the medium term, and most possibly even in the long term. East Asia should therefore be focusing its energy on creating as wide a free trade area as possible (i.e., be geographically unrestricted), and forgo the unrealistic goal of a common Asian currency. However, if an Asian common currency is still adopted, then the lesson from the Greek crisis in early 2010 is that it is necessary for the AFF to become an Asian Monetary Fund.

Formally, the proposed Asian Monetary Unit (AMU) is a basket composed of the currencies of the 13 countries that form the ASEAN+3 grouping. Its usefulness has been examined by various study groups set up by finance ministers, with no formal conclusion so far. A basket of currencies is of no particular interest unless it is being used for particular purposes.

Proposals for the AMU follow the example of the European Currency Unit (ECU). The ECU served as a unit of account, as a basis for computing exchange rate divergence indicators, and was briefly used by private markets to issue debt instruments. Obviously, the proponents of the AMU aim as using it to foster exchange cooperation and possibly to create a regional bond market.

In Europe, the ECU never played any role, but could an AMU meet a more brilliant fate? The ECU was superseded by the elaborate Exchange Rate Mechanism, which imposed many obligations on member countries. The East Asian countries have shown that they are not ready to accept the same restrictions on their monetary policies, but at the same time they are concerned that exchange rate movements affect their external competitiveness. In addition, they are open to currency mismatches, mostly in US dollars, which were at the root of the 1997/98 crisis.

The AMU proposal represents one more attempt at squaring the circle of greater exchange rate cohesion without giving up total control of monetary policies. The Chiang Mai Initiative has evolved toward an Economic Review and Policy Dialogue, which covers exchange rate arrangements. It also dovetails with the Asian Bond Market Initiative. Yet, exchange rate policy coordination has remained elusive and progress on bond market integration at the regional level remains modest. Adopting the AMU is unlikely to change the situation.

A key reason is that, in and by itself, the AMU—with its associated divergence indicator—is not conducive to exchange rate arrangements because it requires choosing one regional currency (or a subregional basket) to act as anchor. The two regional giants, the People’s Republic of China and Japan, are the only ones that could see their currencies play that role, but the floating yen and the tightly controlled renminbi are not well suited for the task.

This is why basket peg proposals for the area are typically defined in terms of external currencies, in some cases including the yen—as Japan is unlikely to join an exchange rate policy cooperation arrangement. Basket pegs directly address the intention of limiting intraregional exchange rate fluctuations. In contrast, the AMU only suggests such an objective, the implicit idea being that interested countries could tie—to various degrees—their currencies to the AMU. This would require agreeing on the list of currencies to be included in the basket and on their corresponding weights. An alternative is to bypass these discussions altogether and let each country choose its own basket. If the weights are based on trade volumes, the difference between common and own-baskets is trivial.

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Any international monetary system has to perform two basic functions: provide liquidity for international transactions and facilitate the adjustment of current account imbalances. Since the end of the Second World War, the United States (US) dollar has been used as the single most important medium of exchange, store of value, and unit of account in the international transactions. In other words, the US dollar has played the role of the global reserve currency. However, the use of national fiat money as global reserve currency inevitably causes confidence problems. As a result of persistent current account deficits, the US net international investment position (NIIP)-to-GDP ratio has been increasing steadily over the decades. The doubt about the US ability of honoring its debt obligations has been increasing significantly since the turn of the century.

The recent global financial crisis and the policy responses by the US government toward the crisis and its aftermath have further shaken the confidence in the US dollar. Among policy responses, the dramatic increase in the US fiscal deficit stands out as the most worrying aspect of US government policy. The increase in fiscal deficit and the consequent increase in the NIIP-to-GDP ratio inevitably will produce negative impacts on the current account balance and hence will pose a serious threat to the role of the US dollar as global reserve currency. However, currently, the priority of US macroeconomic policy is to maintain the momentum of recovery. US fiscal policy should not be geared toward preserving the role of the dollar as reserve currency. This is because the US dollar’s role as global reserve currency depends on a wider range of factors and the impact of the increase in fiscal deficit on the US dollar can be limited in the short run. Furthermore, in the short term, the negative impact of the increase in fiscal deficit on the US dollar can be offset by other policies, such as trade policy.

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Summaries of papers

International Monetary Working Group
The global crisis has witnessed an unprecedented rise of swap agreements between central banks of larger economies and their counterparts in smaller economies. This paper explores whether such swap lines can reduce the need for reserve accumulation. The evidence indicates that there is only limited scope for swaps to substitute for reserves. For one thing, swap lines are extended only to fundamentally sound emerging markets, and to important trade partners. Crucially, sound fundamentals include ample foreign exchange reserves. The highly selective nature of swap recipients means that only a small minority of developing countries will have access to swap facilities. Moreover, large central banks provide liquidity support only when it is in their self-interest. When market confidence is shattered, as happened in the case of the Republic of Korea during the 4th quarter of 2008, reserves fail to perform their precautionary function, even if the economy has sound fundamentals. The timing of market movements suggests that the Bank of Korea’s swap agreements with the United States (US) Federal Reserve played a pivotal role in calming market hysteria over a possible US dollar shortage.

Although overall there is only limited substitutability between swap lines and reserve accumulation, deepening swap lines and regional reserve pooling arrangements such as the Chiang Mai Initiative may weaken the precautionary motive for reserve accumulation. The Chiang Mai Initiative requires more concrete and specific governance structure and implementation details. Formalizing and institutionalizing swap lines will help transform them from temporary anti-crisis measures to more long-term mechanisms for liquidity support. These measures will make it less likely that Asia will gravitate toward the dollar standard.

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The Future of the Global Reserve System

Daniel Gros, Cinzia Alcidi, Anton Brender, and Florence Pisani

In the de facto reserve system from 2000 to 2009, emerging countries with a high savings propensity exported huge amounts of savings through the accumulation of reserves. The reserve currency country has been the main importer of those savings and, hence, the main supplier of the accumulated reserves. The transatlantic financial system provided a complex web of risk-taking chains, which assumed most of the risks arising from the fact that while ultimate borrowers (United States’ households) supplied risky assets, savers required safe assets. The excess risk-taking that took place in the Western financial system is thus closely related to the accumulation of reserves observed during this period.

The authors also explore the prospects for the next decade by asking the following questions: Will reserves continue to grow and will the mismatch between assets supplied and demanded be overcome by the huge expansion of public debt? What are the obstacles to currency diversification by reserve accumulators? They conclude that reserve-accumulating countries can help the reserve system to work better by providing more information about the nature of the assets they accumulate and by diversifying into risky assets. Reform of the reserve system should aim at making better use of the excess savings in emerging market economies.

Renminbi Policy and the Global Currency System\textsuperscript{14}

_Yiping Huang_

The global currency system is likely to change significantly after the global financial crisis, but decline of the US dollar may be a gradual process. These would impact the renminbi policy of the People's Republic of China (PRC), which, in turn, may generate feedbacks on the global system. PRC may be able to help achieve a smooth and orderly adjustment of the global currency system, through steps such as gradual increase in exchange rate flexibility and gradual diversification of foreign reserve investment. It could also promote the International Monetary Fund's special drawing rights by linking the renminbi to it.

The global crisis is likely to accelerate, not slow, renminbi policy liberalization. And an internationalized renminbi may play very important global and regional roles, provided that the PRC successfully improves monetary policy mechanisms.  

\textsuperscript{14}Full paper available at http://aric.adb.org/grs/papers/Huang.pdf
This paper argues that the world needs a greater role for alternative currencies in order to strengthen the global reserve system. A gradual evolution toward a multicurrency system is desirable because it reduces the ever-growing balance of payments deficit pressure on a single reserve currency issuer and provides alternatives for countries to diversify their foreign exchange currency holdings.

This paper focuses on the role of an Asian currency in the global reserve system. Given the continuing strong growth of the People’s Republic of China (PRC) and its expanding influence in the world economy, it is quite natural that the renminbi emerge as a new international currency. This is, however, contingent on PRC authorities’ acceptance of a more convertible capital account and development of an efficient financial system.

The current global financial crisis has hampered the long-term prospects of both the US dollar and the euro as reserve currencies. The crisis has compromised both currencies as safe-haven stores of value. The renminbi is not yet a significant international currency. But simulations show that, once the currency were to become more convertible, the renminbi can gradually grow to become an international currency within the region and beyond—sharing from about 3% to 12% of international reserves by 2035. As other major currencies stagger, however, the renminbi may rise more quickly as an international currency than many anticipate.

Creating a more efficient, stable, and equitable global reserve system is a vital priority for emerging economies, which depend heavily on international trade and capital flows for growth and development. The internationalization of the renminbi will offer an alternative to the US dollar and euro. The well-functioning multicurrency system with an expanded role for the renminbi as an international currency can play an important part in maintaining global financial stability and sustained growth.

Will the Renminbi Emerge as an International Reserve Currency?15

Jong-Wha Lee

Asia’s Sovereign Wealth Funds and Reform of the Global Reserve System\textsuperscript{16}

Donghyun Park and Andrew Rozanov

Developing Asia’s foreign exchange reserves have grown explosively since 1990. The reserve growth mirrors the transformation of the region from a current account deficit region to a surplus region since the Asian financial crisis. The region’s reserves now comfortably exceed all plausible estimates of what the region needs for traditional liquidity purposes. The emergence of excess reserves has led to widespread calls for more active reserve management. This, in turn, has resulted in the creation of new sovereign wealth funds (SWFs) such as the China Investment Corporation and Korea Investment Corporation in the region. The establishment of SWFs and, more generally, reorientation of excess reserve management from passive liquidity management to active profit-seeking investment will dilute the dominant role of the US dollar as global reserve currency and thus speed up the reform of the global reserve system. This is because US dollar–denominated assets enjoy a much more dominant position in the global market for reserve assets—i.e., US government bonds—than they do in the global market for riskier assets—i.e., equities and corporate bonds.

At the same time, SWFs can help redesign and restructure reserve portfolios to make them more robust and resilient to the reform of the global reserve system—that is, by exposing reserve managers to a more diverse mix of currencies and asset classes, SWFs and more active reserve management will better prepare them for a less US dollar–centric global reserve system in the future. In addition to SWFs, other policy options for more active reserve management include transferring some excess reserves into national pension funds or into exchange-traded funds, which are distributed among local investors. Regardless of the exact form of returns-oriented reserve management, it will require that countries build up a critical mass of skills and expertise in wealth preservation and management.

\textsuperscript{16}Full paper available at http://aric.adb.org/grs/papers/Park.pdf
The global economy is faced with unprecedented imbalances where huge reserves, mostly denominated in United States (US) dollars, have been accumulated in non-reserve currency countries and income velocity of global reserves is decreasing with random-walk.

In this paper, global data with respect to world economy and the US have been analyzed in Vector Error Correction and Unconstrained Vector Auto Regression frameworks to understand the changing dynamics of economic relationship between the US and other nations through Granger Causality and impulse responses. In particular, the economic relationships between the US and groups of other world economies have been examined with respect to real gross domestic product (GDP), domestic money market rates, and international interest rates to demonstrate the prevailing dichotomy in international economic structure.

The dynamics of the analysis indicates that the US does not cause growth in real GDP of other countries (taken in groups of high-income, upper-middle, lower-middle, and low-income countries) but it continues to affect the money market of major economies. Such possibility is argued to be plausible only because of the dual use of the US dollar, which is both the national currency of the US and the major currency for international transactions. A dichotomy of this kind is inherently unsustainable as it creates distortions in conducting monetary and fiscal policies of all nations, including the US. The paper also estimates a simple model of consumer price inflation in the US and demonstrate the prevailing rigidity and supply side dominance. It is then argued in particular how the inflation targeting regime in the US has been misplaced, volatile, and destabilizing for the entire global economy through linkages provided by the dual use currency system, while a preferred policy regime should be characterized by low-level/low-volatility interest rates.

Under these contradictions, global stability cannot be achieved without making international currencies neutral. The economy of the US would also be better off with a neutral currency of international reserve, which decouples its current account deficits from holding international reserves of other countries. Several proposals have been floated to reform international monetary system. However, these appear to be divided in three very broad categories: (i) replace the current dual use currency with an international currency; (ii) replace current dominant dual use currencies with a basket of currencies; and (iii) leave the current currency as it is but develop regional currencies to provide competition. The author believes, in the long run, only the first option is sustainable because the other options will lead to similar situations as those being faced today. There is no guarantee that the multicurrency system would remain flexible and competitive.

The author attempts a modest proposal as follows:

(i) There should be a neutral currency say special drawing rights-money (SDRM) for international transactions, which can provide a stable store of international value by virtue of an expanded basket-based valuation system with currency needs managed by a banker of last resort, for example, an International Monetary Fund-type of Bank, where excess reserves can be deposited and lent at predetermined benchmark rates—just like any central bank, but providing for transactions off the benchmark rate.

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(ii) There should be an arrangement of bilateral negotiations between depositor central banks and borrowing central banks to make a deal off the benchmark rate, where discounted deposits of a surplus country can be transferred to a borrower country in the mutual interest of trade. Such benefits can be provided by the surplus country to avoid tariff barriers from deficit countries and, in a sense, support employment in an exporting country.

(iii) The transition from US dollar–based international monetary system to SDRM-based system should be done within an agreed time frame with a period of coexistence followed by complete transition to SDRM.

(iv) With the increasing share of other nations in the world real economy, the demand for greater participation is legitimate and it would act as a stabilizing force. Therefore, more and more currencies need to be added to current SDR basket before adopting an SDRM.

(v) The monolithic monetary fund may be decentralized with an arrangement of central office and several autonomous regional offices looking after surveillance, monitoring, advisory services with respect to member countries, and management and distribution of the fund at the regional level. The central office could concentrate on currency management, policy making, surveillance of regional offices, and fund allocations to regions. Such a system as proposed here would not only bring more confidence among smaller countries but would also be more robust, knowledgeable, and effective.
The process is under way in East Asia to establish an independent surveillance unit to support decision making in the Chiang Mai Initiative Multilateralization (CMIM). This paper reviews the principles of surveillance, discusses how they have applied to International Monetary Fund (IMF) surveillance in practice, and draws lessons for designing an effective regional surveillance mechanism. The need for such a mechanism in East Asia is both immediate and evolving. For the immediate need, surveillance must meet the operational requirements of the CMIM. At the same time, it must also respond to East Asia’s evolving need for a formal framework of policy dialogue and cooperation.

A review of the rich literature on IMF surveillance has identified at least five organizing principles for an effective regional surveillance mechanism: (i) clearly define the purpose of surveillance, (ii) centralize surveillance activities under a single organizational unit, (iii) use objective indicators to inform analysis, (iv) design the governance structure to ensure independence, and (v) provide analysis and recommendations directly to senior policy makers in order to exploit peer pressure. Of these, defining the purpose of surveillance may be the most fundamental requirement for effective surveillance, because agreement on the purpose presupposes the surrender by member governments of part of national sovereignty essential for successful policy cooperation. Peer pressure as the primary channel of influence does not preclude active engagement with the public, because after all it is through the political process that policy makers are motivated to take action. The surveillance unit should therefore operate under the assumption that it makes full and complete disclosure of any analysis, view, or information it possesses to the public, except when privileged information is involved. To the extent that the quality of the people ultimately determines the quality of the output, it is paramount to staff the unit with competent professionals on the basis of merit alone.

The Future Global Reserve System—an Asian Perspective

The Future Global Reserve System—an Asian Perspective is a collection of studies that discuss critical issues related to the future of the international monetary system and the role of Asia in its evolution. It is envisaged to enhance the awareness of Asian policy makers and the public in order to participate actively and constructively in the emerging global dialogue on reforming the global reserve system.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.